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SUBJECT: SCENESETTER FOR VISIT OF DOE DEPUTY SECRETARY
PONEMAN

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- 1B. KUWAIT 1036
- 1C. KUWAIT 967
- 1D. KUWAIT 915
- 1E. KUWAIT 338
- 1F. STATE 118784

11. (U) Ambassador and Mission Kuwait warmly welcome the December 5-6 visit of Deputy Secretary of Energy Poneman to Kuwait.

The Bilateral Relationship

12. (SBU) Kuwait remains a key bilateral ally for the U.S. and has been critical in supporting OIF and OEF, both with financial support and in providing a very permissive operating environment. The military estimates that Kuwaiti financial and in kind support exceeds one billion dollars annually. For our part, U.S. direct contributions to the Kuwaiti economy -- in terms of local purchases and per diem expenses for locally engaged staff -- are also considerable. Although the extent of the U.S. military and civilian presence in Kuwait remains an open secret, the full extent of this support is not something that the GoK or we normally discuss (ref b).

13. (SBU) Our commercial and economic relationship, however, has not developed to the level of our military relationship. For the first nine months of 2009, U.S. exports to Kuwait were about USD 1.3 billion and U.S. imports from Kuwait were USD 2.6 billion. About a third of U.S. exports to Kuwait are automobiles and automobile parts. Kuwait exports around 150,000 barrels per day of crude oil to the United States. U.S. investments in Kuwait are similarly limited: Dow Chemical and Citibank are the two major U.S. investors in Kuwait.

Governmental Paralysis -- Slowing Development

14. (SBU) The ongoing disputes between the GoK and parliament are becoming more intense with a "first-ever" questioning of the Prime Minister scheduled for December 8. Although there has been speculation that the Amir would again dissolve parliament to protect the PM from questioning, several observers have told us that they understand that the questioning will take place. (Note: Constitutionally, the parliament may question any minister, including the PM, but may not issue a vote of no confidence in the PM. End Note.) Governmental-Parliamentary disputes have contributed to the cancellation of several high profile investment projects, including a multi-billion dollar joint venture between Dow Chemical and the Petrochemical Industries Corporation (K-Dow) and the "4th refinery" project (to refine low sulfur fuel oil for Kuwaiti power plants).

Dow -Strategic Partner but Mega-Deal Out

¶ 15. (SBU) Less than a month after Kuwait's Petrochemical Industries Company (A Kuwait Petroleum Corporation subsidiary) signed the USD 17.2 billion K-Dow JV, the GoK withdrew permission, essentially canceling the deal. During intensive high level advocacy and post-cancellation forensics, senior GoK officials stressed that they continued to view Dow as a strategic partner, but that the GoK was no longer considering a deal on the scale of K-Dow. Although GoK officials have suggested that Dow consider smaller scale projects, we understand from Dow that the Kuwaitis have not responded positively to a proposal for a similar project at about half the cost. On the other hand, the Kuwait Investment Authority invested one billion dollars in Dow's take over of Rohm and Haas and Dow is a minority partner in KPC's China refinery project.

Oil Committed to Getting to 4 mmb/d by 2020

¶ 16. (SBU) Looking forward, Kuwaiti officials have reiterated their commitment to increasing their production capacity to 4 million barrels per day (mmb/d) by 2020. Kuwait Petroleum Corporation is planning to invest approximately USD 70 billion over the next five years (divided between upstream and down stream investments) in furtherance of that goal. As part of the upstream investments, KPC has budgeted drilling an additional 551 wells and adding new gathering stations and new crude export piers. According to Kuwaiti oil sector

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officials, they are looking to have 80 rigs (including 7 exploration rigs) operational in the 2013 timeframe.

¶ 17. (SBU) On the downstream side, Kuwait plans to retender the 4th refinery project as well as to upgrade the three existing refineries to produce "clean fuels" that will meet new international standards. The 4th refinery project is budgeted at about USD 12 billion and will refine 600,000 barrels per day for Kuwait's power sector. Although Kuwait is also seeking to develop its natural gas reserves, most KPC officials believe that the country will continue to need to use fuel oil to meet summer power demands. (Note: Discussions to secure natural gas supplies from Qatar and to resolve continental shelf issues with Iran for access to shared natural gas fields have not yet borne fruit. End Note.) Kuwait is also moving forward with plans to build refineries in both Vietnam and China. The joint venture with Sinopec is billed as the largest Sino-foreign joint venture in China. The project, scheduled to be operational by 2013, would include a refinery, designed to process 240,000-300,000 barrels per day of Kuwaiti crude, and a petrochemical processing component. Sinopec will own a 50% stake in the joint venture, Kuwait will own a 30% stake.

¶ 18. (SBU) Kuwaiti officials have acknowledged Kuwait's need to bring in IOC expertise to meet their ambitious development goals. The Kuwait Oil Company is reportedly planning to hire over a thousand new employees in the next few years, but most observers doubt that they will have the expertise needed to manage production increases, especially since much of the new production will come from more complex fields. Attracting the IOCs is complicated by the fact that Kuwait's constitution prohibits foreign ownership of natural resources and foreign investment in the oil sector. In the last year, both Chevron and BP have pulled their representative offices out of Kuwait after lengthy efforts to make the terms of enhanced technical services agreements profitable. Kuwait Petroleum Corporation is in negotiations with ExxonMobil to develop its northern heavy oil reserves. Currently the proposal would combine an ETSA for the upstream work with a joint venture on the downstream side. The JV would generate

steam which it would sell to the Kuwait Oil Company for use in steam flooding the reservoir. According to ExxonMobil, if the project moves forward it would be the largest steam flood project in the world.

Power Demands Large and Growing

¶ 9. (SBU) Kuwait is facing explosive growth in its demand for power and is projecting growth in the 6%-8% range. Rapid economic growth and the need to house a rapidly growing population are contributing to the demand growth. More importantly, perhaps, Kuwait subsidizes power at well below the cost of production (about two-thirds of a cent per kilowatt hour or USD 5-6 billion annually), which removes any incentive for conservation. Kuwaiti officials have said that touching these subsidies would be very difficult, if not impossible, politically and are looking at other ways to mandate energy efficiency. Kuwait's Ministry of Energy is seeking to increase production capacity by 50% (or 5,000 MW) in four years. In September, Kuwait signed with a GE-led consortium to build the 2,000 MW Subiya power plant. The rest would be brought on in the first phases of the, yet to be tendered, Al-Zour power plant. Although these projects would be built under standard EPC contracts, the ministry is examining the possibility of adding additional power via Build Operate Transfer (BOT) or Independent Power Projects (IPP). (Note: The USD 2.4 billion Subiya project only went through on its third try, after intensive Ambassadorial-led advocacy. Meeting the ministry's proposed schedule assumes that similar delays don't face future projects. End Note.)

¶ 10. (SBU) Although our GoK interlocutors have expressed interest in renewable energy as a source of power, with some expressing their hope that it could contribute up to 10% of power generation within 10 years, all acknowledge that it will not be able to meet Kuwait's base load demand needs. In addition to building power plants to run on fuel oil, Kuwait is exploring the development of nuclear power. Although Kuwait has not officially decided to develop domestic nuclear power, it has begun exploring that possibility. Our interlocutors suggest that, once initial economic and siting studies are completed by the end of 2010, the GoK is likely to move forward with a decision to develop domestic nuclear power. They suggest that initial economic analyses suggest that nuclear power would be competitive at \$50 per barrel

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oil. Although Kuwaiti officials have stressed that they are not interested in developing domestic enrichment or reprocessing capabilities, they noted that -- given the negative G-77 NAM reaction -- it could be politically difficult for them to accept the kinds of legally binding terms that were included in the UAE's 123 Agreement.

Interest in Cooperation

¶ 11. (U) We see Kuwaiti interest in cooperating in a number of areas with both the USG and U.S. companies. There is strong interest in cooperating on renewable energy and on energy efficiency projects. The Minister of Electricity and Water specifically asked whether the USG could recommend leading technology companies in the renewable energy sector and also companies that could provide energy planning consulting services. The Director General of the Kuwait Institute for Scientific Research is interested in developing scientist to scientist contacts in the U.S. in the energy field in order to create a center of excellence in the area of renewable energy.

¶ 12. (SBU) The Kuwaitis also expressed interest in cooperating on nuclear power. They noted that they were in talks with all the supplier countries, but were especially interested in cooperating with the USG on regulatory matters and on building human capacity and training. The Kuwaitis have

specifically asked whether the USG has instituted any restrictions on training of non-Americans (both academic and OJT) in the nuclear field. If so, they are interested in learning whether there would be any USG flexibility in dealing with a friendly country such as Kuwait.

Meetings

¶ 13. (SBU) We have requested meetings with Prime Minister, Sheikh Nasser Mohammed Al-Sabah; Deputy Prime Minister and Minister of Foreign Affairs, Sheikh Dr. Mohammad Al-Sabah; the President of the National Security Bureau, Sheikh Mohammad Al-Khalid Al-Sabah; Minister of Oil and Information Sheikh Ahmad Al-Abdullah Al-Sabah; Minister of Electricity and Water Dr Bader Shebib Al-Shuraiaan. The Minister of Oil will be out of the country at an OAPEC meeting. We have preliminary indications that the GoK will be able to arrange the other meetings.

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